ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	CC Docket No. 98-117
1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements	

REPLY COMMENTS OF BELL ATLANTIC[1]

The comments filed in this proceeding overwhelmingly confirm that the ARMIS reports have outlived their original justifications and are precisely the types of regulations that Congress had in mind when it directed the Commission to eliminate any regulations that are "no longer necessary in the public interest." 47 U.S.C. § 161(b). The reports should be eliminated in their entirety. If the Commission, nonetheless, retains some part of the ARMIS reports (which it should not), the reports should be drastically streamlined to eliminate duplicative data and to reduce the burden on the reporting carriers.

I. The Commission Should Eliminate, Or Drastically Streamline, The ARMIS Reports.

The commenters demonstrate that the original justifications for adopting the ARMIS reports no longer apply, that continuing these unnecessary reports imposes a

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company

costly burden on the carriers, and that requiring one segment of the industry to file detailed financial and statistical data is increasingly inappropriate in a competitive environment. ***See*** USTA, 1-6, 23; Bell Atlantic, 2-4; SBC, 3, 8-9, 14; BellSouth, 4, 11; GTE, 9; Ameritech, 4; Sprint, 4. For these reasons, the Commission should eliminate the ARMIS reporting system in its entirety.

If the Commission does not eliminate the ARMIS reports altogether, Section 11 requires that, at an absolute minimum, the reports must be drastically streamlined. SBC and BellSouth offered proposals similar to USTA's for reducing the ARMIS reports to a dozen pages or less by eliminating unnecessary and redundant information. USTA, 7-11; BellSouth, 8-16; SBC, 19-28. Any of these proposals would give the Commission more than enough information to fulfill its regulatory responsibilities.[2]

The Commission should adopt BellSouth's proposal to set a two-year limit on the requirement to re-file an ARMIS report, and it should not require the carriers to re-file data which would have no material impact on a carrier's financial results. BellSouth, 7; US West, 2; Cincinnati, 4. It is very difficult for the carriers to re-create data that may be many years old, and requiring them to do so serves no real purpose.

[2] The Commission should not adopt AT&T's proposal to require these reports to be filed electronically on LOTUS spreadsheets. AT&T, 2. The Commission should allow the carriers to report the data in a standard file format that can be used to input data to any software program.

II. The Commission Should Reject Proposals To Maintain, Or Increase, The Burden Of The ARMIS Reporting System.

The long distance carriers urge the Commission to ignore the clear directive of Section 11 and to require all local exchange carriers to continue reporting ARMIS data at the current, or even at a greater, level of detail. ***See,*** AT&T, 2-7; MCI, 2-10. Their transparent efforts to burden their competitors and to obtain valuable information about their competitors' operations must be rejected.

AT&T and MCI argue that price caps has not eliminated the need for detailed reporting of cost data in ARMIS, because some of the information in those reports may be used to review exogenous cost adjustments and other types of cost showings in tariff filings. AT&T, 6; MCI, 4-7. However, the Commission's rules, and its tariff review plan orders, already require price cap carriers to file any cost support that is necessary to justify rates under price caps. The filing of comprehensive cost data in ARMIS is superfluous.

The commenters also argue that ARMIS data at the Class A level are needed to detect improper cross-subsidization of non-regulated activities. AT&T, 6; MCI, 6; GSA, 3-4. However, as Bell Atlantic and others demonstrated, ARMIS data provide little information about the way that costs are assigned to non-regulated accounts. ***See, e.g.***, Bell Atlantic, 12-13; SBC, 15-17. Rather, that information, and more, is already provided in the carriers' cost allocation manuals. ***See*** 47 C.F.R. § 64.903(a)(5).

Moreover, cross-subsidization is not a realistic concern for a carrier under price caps, as AT&T has explained in discussing its own price cap plan;

> the specifics of AT&T's price cap plan eliminate any ability or incentive to shift costs. . . . [t]he transfer prices of goods or services from nonregulated affiliates [can] have no effect whatsoever on AT&T's price caps or on the rates AT&T may charge. . . . In short, the basic assumption of the cost-shifting/cross-subsidization theory (i.e., that a regulated carrier can recover inflated transfer prices or other shifted costs through higher regulated price levels) is entirely inapplicable to . . . services subject to AT&T's price cap regulatory system.[3]

GSA argues that cross-subsidization is a concern so long as the local exchange carriers retain significant market power. GSA, 4. AT&T has already refuted that argument with regard to its own incentives under a price cap system;

> [a]s a matter of fundamental economic theory, no firm (even one possessing market power) has an incentive to shift costs between separate productive activities because the profit-maximizing price and output are not affected by any change or manipulation of internal transfer prices. The pricing of internal transfers above or below market prices therefore produces no benefit to the firm nor disadvantage to any consumer or competitor.[4]

By the same token, the no-sharing price cap system for local exchange carriers gives them neither the incentive nor the ability to cross-subsidize their competitive services, regardless of whether they continue to have market power.

AT&T also is wrong that section 402(c) – which requires the Commission to adjust, for inflation, the $100 million revenue threshold for determining whether a carrier

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[3] Comments of AT&T, CC Docket No. 93-251 (filed Dec. 10, 1993), pp. 11-13 (emphasis in the original, footnotes omitted). AT&T's arguments that the Commission should continue to require price cap carriers to report depreciation data (AT&T, n.3), also are directly contradicted by its previous claims that depreciation practices are irrelevant under price caps. Id., p. 13.

[4] Comments of AT&T, CC Docket No. 93-251 (filed Dec. 10, 1993), n.20 (emphasis added), citing Areeda and Turner, Antitrust Law ¶ 1003a at 218 (1980) (the "postulated advantage of [cost shifting] is a phantom and the postulation of a fantasy").

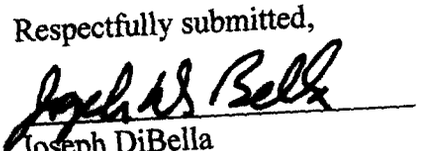
must file ARMIS reports – prohibits the Commission from relieving carriers of the obligation to report ARMIS data at the Class A level of detail. AT&T, 4-6. That provision does not, and cannot, override the Commission's obligation to comply with other provisions of the Act, such as Section 11.

MCI argues that the Commission should not only maintain, but expand, the ARMIS infrastructure and service quality reports, to determine if new services should be incorporated into the definition of universal service under section 254, to carry out its duties under Section 706, and to collect "comprehensive information about the architecture of the ILECs' networks," for purposes of Section 251. MCI, 9-10. However, further expanding the already burdensome ARMIS reports would be a highly inefficient means of gathering the data necessary for these functions. Rather, the Commission can, and should, rely on focused data requests to obtain any information that is needed for these purposes.

III. Conclusion

The Commission should take this opportunity to eliminate the ARMIS reporting system. If it does not eliminate the reports entirely, it should adopt the USTA proposal to streamline the reports and remove unnecessary and redundant material.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that on this 4th day of September, 1998, a copy of the foregoing "Reply Comments of the Bell Atlantic" was sent by first class mail, postage prepaid, to the parties on the attached list.

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